

Message Text

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ACTION EB-07

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 8975

INFO AMEMBASSY LONDON

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UNCLAS SECTION 1 OF 2 OTTAWA 826

POUCHED ALL CONSULATES IN CANADA

E.O. 11652: N/A

TAGS: EAIR, CA

SUBJ: CIVAIR: AIR CANADA FINANCES AND NORTH ATLANTIC FARES

REF: A. OTTAWA 045, B. OTTAWA 595 C. OTTAWA 609 D. OTTAWA
A-132, FEB 25 E. STATE 033124

SUMMARY: AIR CANADA'S 1975 LOSS MAY BE ABOUT \$12.5 MILLION.
TRAFFIC OUTLOOK DOES NOT APPEAR BRIGHT. DOMESTIC (AND
PRESUMABLY TRANSBORDER) FARE INCREASES MAY BE IN THE WORKS
AS WELL AS RETRENCHMENT MEASURES. CARRIER JUSTIFIES ITS
PROMOTION OF SUPER-APEX FARES ON NORTH ATLANTIC. END SUMMARY.

1. AIR CANADA, PRESIDENT CLAUDE TAYLOR, IS SUBJECT OF TWO
ARTICLES IN TORONTO GLOBE AND MAIL, FEB 27. HE IS
QUOTED AS SAYING IN A MONTREAL INTERVIEWS THAT THE CARRIER'S
LOSS WILL BE ABOUT \$12.5 MILLION -- RATHER THAN THE
\$10 MILLION PREVIOUSLY ANTICIPATED (REF A). HE ALSO SPOKE
OUT ABOUT THE NEED FOR AIR FARE INCREASES AND
IDENTIFIED CERTAIN RETRENCHMENT MEASURES.

2. EXCERPTS FROM ONE ARTICLE CONTAIN FOLLOWING POINTS
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OF A GENERAL NATURE.

QUOTE. A WAY MUST BE FOUND BACK TO PROFITS, HE NOTED IN A MONTREAL INTERVIEW. "PART OF THE ANSWER WILL COME THROUGH FARE INCREASES. PART WILL ALSO COME FROM AN UPTURN IN THE ECONOMY," WHICH HAS BEEN SLOW IN DEVELOPING.

BUT PART MUST ALSO COME FROM THE AIRLINES THEMSELVES, INCLUDING AIR CANADA, THOUGH THE FURTHER POOLING OF RESOURCES AND THE AVOIDANCE OF COSTLY DUPLICATIONS IN SERVICE AT A TIME OF SLOW TRAFFIC GROWTH.

"OTHERWISE THERE IS THE DANGER OF PRICING OURSELVES RIGHT OUT OF THE MARKET." ...

"THIS //THE LOSS//IS SOMETHING THAT THE AIRLINE HAD NOT EXPERIENCED FOR SOME TIME. IN FACT, TRAFFIC WAS DIS-APPEARING LAST YEAR FASTER THAN WE COULD CUT CAPACITY," MR. TAYLOR SAID.

"NEARLY ALL ROUTES SUFFERED IN THE TRAFFIC DROP. YET WHEN YOU COMPARE OUR LOSSES TO THOSE REPORTED BY SOME OF THE OTHER AIRLINES, WE HAVE NOT DONE TOO BADLY." ... AS FOR THE FARE INCREASES, HE EXPECTS APPLICATION WILL BE MADE SHORTLY. HOWEVER, BEFORE DOING SO HE HAS DIRECTED THAT THERE BE A COMPLETE REVIEW OF THE OUTLOOK FOR THE COMING YEAR TO ESTABLISH WHAT IMPACT THE INCREASES WILL HAVE ON THE AIRLINE.

"IN 1975, WE EXPECTED TRAFFIC GROWTH OF ABOUT 8 PERCENT AND HAD TO MAKE CONSTANT ADJUSTMENTS" AS IT FAILED TO MATERIALIZE.

WITH THE ANTICIPATED UPTURN IN THE ECONOMY THIS YEAR, IT WAS ALSO THOUGHT THERE WOULD BE AN UPTURN IN TRAFFIC.

"BUT THIS DOESN'T SEEM TO BE HAPPENING, "MR. TAYLOR SAID. AS A RESULT, THE AIRLINE HAS GONE BACK FOR ANOTHER LOOK AT ITS 1976 PROJECTIONS, WHICH MAY MEAN SERVICE AND SCHEDULING CUTBACKS.
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"WE WANT TO MAKE SURE THAT WHEN WE SEEK OUR FARE INCREASES THAT WE ARE NOT ASKING THE PUBLIC TO PAY US FOR FLYING AROUND EMPTY SEATS."

IT IS HOPED THAT THE NEW FARES WILL COME INTO EFFECT SOME TIME BETWEEN APRIL 1 AND MAY 1, WHICH WILL MEAN THEIR FILING WITH THE CANADIAN TRANSPORT COMMISSION

SOMETIME IN MARCH. ...

THE QUESTION OF OVERCAPACITY IS ONE THAT IS BOTHERING ALL AIRLINES, MR. TAYLOR INDICATED.

HE SAID FOR AIR CANADA IT WILL MEAN THE RETIREMENT OF SOME OF ITS OLDER DC-8 AIRCRAFT, A MAKE (SIC) THAT ALREADY STARTED AND AFFECTS 10 AIRCRAFT. THESE ARE POWERED BY JET ENGINES THAT ARE NOT AS EFFICIENT IN THEIR FUEL CONSUMPTION AS THE AIRLINE'S NEWER AIRCRAFT.

AS FOR MAKING GREATER USE OF ITS REMAINING AIRPLANES, THE AIRLINE IS MOVING TOWARD THE REDUCTION OF FIRST CLASS SEATING AND REPLACING IT WITH ECONOMY CLASS SEATS.

THE AIRLINE NOW IS OPERATING A NUMBER OF AIRCRAFT IN ALL-ECONOMY CLASS AND IS IN THE PROCESS OF CONVERTING FOUR DC-8 STRETCHED AIRPLANES TO ALL-ECONOMY CONFIGURATION. A NUMBER OF THE NEW BOEING 727-200 AIRPLANES THE AIRLINE ACQUIRED IN THE PAST YEAR FOR ITS REPIDAIR SERVICE BETWEEN TORONTO AND MONTREAL ARE ALSO IN ALL-ECONOMY CONFIGURATION.

MR. TAYLOR SAID HE COULD FORESEE THAT THIS PROCESS MIGHT CONTINUE AS AIRLINES SEEK TO GAIN MORE SEATS FROM THEIR PRESENT EQUIPMENT RATHER THAN ORDER NEW AIRCRAFT.

THIS CAN BE DONE BY REMOVING FIRST CLASS SECTIONS COMPLETELY, OR REDUCING THE SIZE OF FIRST CLASS SECTIONS AND REPLACING THEM WITH ECONOMY CLASS, OR INCREASING THE NUMBER OF ABREAST-SEATING IN SOME OF THE WIDER-BODIES AIRPLANES. ALL ASPECTS WILL BE EXAMINED IN THE UNCLASSIFIED

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EFFORT TO CUT COSTS AND GAIN PROFITS, HE SAID. END QUOTE.

3. TAYLOR'S COMMENTS ON THE NORTH ATLANTIC ARE CONTAINED IN A SEPARATE ARTICLE. TEXT FOLLOWS:

QUOTE. AIR CANADA HOPES TO ESTABLISH A NEW "SUPER" LOW EXCURSION FARE BETWEEN CANADA AND BRITAIN THIS SUMMER TO BOLSTER ITS SCHEDULED TRAFFIC ON THE NORTH ATLANTIC, ACCORDING TO CLAUDE I. TAYLOR, NEW PRESIDENT OF THE AIRLINE.

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HE SAID IN A REPORT ON BUSINESS INTERVIEW IN MONTREAL THAT THE NEW FARE WILL BE AT A SLIGHT PREMIUM ABOVE THE PEAK SUMMER CHARTER FARE OF \$369 FROM TORONTO TO LONDON. BOOKINGS WILL HAVE TO BE MADE IN ADVANCE. ALTHOUGH MR. TAYLOR DID NOT INDICATE HOW MUCH THE PREMIUM WILL BE, INDUSTRY OFFICIALS SAY AIR CANADA IS TRYING TO HOLD IT TO \$20 IN ITS TALKS WITH AIRLINE MEMBERS OF THE INTERNATIONAL AIR TRANSPORT ASSOCIATION FLYING THE NORTH ATLANTIC.

THE NEW LOW FARE WAS PROPOSED BY AIR CANADA BECAUSE OF WHAT IT REGARDS AS A UNIQUELY CANADIAN PROBLEM. "AS THE RESULT OF TRENDS AND OUR EXPERIENCE LAST YEAR, WE FOUND OUR CHARTER FLIGHTS WERE GOING OUT FULL WHILE OUR SCHEDULED FLIGHTS GOING ONLY A FEW MINUTES LATER WERE LEAVING WITH ONLY A 25 PERCENT LOAD FACTOR." MR. TAYLOR SAID.

"WE HAVE TO TRY AND DIVERT THE CHARTER TRAFFIC WE ARE CARRYING TO FILL UP OUR SCHEDULED FLIGHTS." OR ELSE SCHEDULED OPERATIONS FOR THE BUSINESSMAN AND EMERGENCY TRAVEL WILL BE SERIOUSLY JEOPARDIZED. IT IS THE AIRLINE'S INSISTENCE ON THE NEW LOW FARE THAT HAS PREVENTED CLOSING THE NEW FARE STRUCTURE

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ON THE NORTH ATLANTIC FOR THE COMING YEAR FROM APRIL 1.

KNOWN AS AN ADVANCED PURCHASE EXCURSION FARE, THE NEW FARE CATEGORY WAS FIRST INTRODUCED LAST YEAR. HOWEVER, THE FARE WAS SET AT \$80 ABOVE THE HIGHEST CHARTER FARE DURING THE PEAK SUMMER SEASON AND AT \$40 DURING THE LOW TRAVEL PERIODS.

AIR CANADA INSISTED THAT THE FARE-SPREAD WAS TOO WIDE AND WOULD HAVE TO BE LOWERED TO RESOLVE THE SITUATION IT WAS FACING BETWEEN CHARTER AND SCHEDULED FLIGHTS.

MR. TAYLOR AND EXECUTIVES OF AIRLINES WERE CALLED TO GENEVA LAST WEEKEND IN AN ATTEMPT TO RESOLVE THE MATTER. MR. TAYLOR SAID HE IS OPTIMISTIC THAT AGREEMENT WILL BE REACHED AND, IF OTHER MATTERS CAN BE AGREED UPON A DECISION SHOULD BE MADE KNOWN THIS WEEKEND.

MR. TAYLOR SAID SOME EUROPEAN AND U.S. CARRIERS WERE RELUCTANT TO ACCEPT THE NEW LOW FARE BECAUSE THEY FEARED A DILUTION OF THEIR REVENUE BY MAKING THE APEX FARE LOWER. IT WILL BE THE LOWEST FARE OFFERED BY SCHEDULED CARRIERS.

MR. TAYLOR SAID THIS RELUCTANCE WAS UNDERSTANDABLE AS ADVANCED BOOKING CHARTERS DO NOT OPERATE OUT OF THE UNITED STATES AS THEY DO IN CANADA WHICH PERMITS INDIVIDUALS TO BOOK IN ADVANCE. THE UNITED STATES STILL FOLLOWS THE AFFINITY RULE WHERE A TRAVELLER MUST BE A CLUB MEMBER TO FLY CHARTER.

HOWEVER, THE U.S. CIVIL AERONAUTICS BOARD HAS INDICATED THAT ABC CHARTERS WILL BE INTRODUCED IN THE UNITED STATES EITHER LATE THIS YEAR OR NEXT AND U.S. AIRLINE OPPOSITION TO AIR CANADA'S "SUPER-APEX" PROPOSAL HAS LESSENED WITH THE REALIZATION THAT THEY TOO WILL BE FACING THE SAME PROBLEM OF CHARTER VERSUS SCHEDULED SERVICES IN THE FUTURE. END QUOTE.
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